



**STATE OF UTAH INSURANCE DEPARTMENT**

**REPORT OF FINANCIAL EXAMINATION**

**of**

**ACCENDO INSURANCE COMPANY**

**of**

**West Valley City, Utah**

**as of**

**December 31, 2020**



## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION.....</b>	<b>3</b>
Period Covered by Examination .....	3
Examination Procedures Employed .....	3
<b>SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS .....</b>	<b>4</b>
<b>COMPANY HISTORY.....</b>	<b>4</b>
General.....	4
Dividends and Capital Contributions .....	5
Mergers and Acquisitions.....	5
<b>MANAGEMENT &amp; CONTROL INCLUDING CORPORATE GOVERNANCE.....</b>	<b>5</b>
Directors.....	5
Officers .....	6
Holding Company .....	6
<b>AGREEMENTS AND TRANSACTIONS WITH AFFILIATES.....</b>	<b>7</b>
<b>TERRITORY AND PLAN OF OPERATION.....</b>	<b>7</b>
<b>GROWTH OF THE COMPANY .....</b>	<b>7</b>
<b>REINSURANCE.....</b>	<b>7</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>8</b>
BALANCE SHEET.....	9
STATEMENT OF REVENUE AND EXPENSES.....	10
RECONCILIATION OF CAPITAL AND SURPLUS.....	11
<b>ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....</b>	<b>12</b>
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS.....</b>	<b>12</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>12</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>12</b>

April 28, 2022

Honorable Jonathan T. Pike, Commissioner

Utah Insurance Department

4315 S 2700 W, Suite 2300

Taylorsville, Utah 84129

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, a coordinated multi-state examination, as of December 31, 2020, has been made of the financial condition and business affairs of:

**ACCENDO INSURANCE COMPANY**

West Valley City, Utah

hereinafter referred to in this report as “the Company” and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered by Examination**

The last full scope examination of the Company was as of December 31, 2018. This full scope examination of the Company was conducted by representatives of the Utah Insurance Department (Department) and covers the period of January 1, 2019 through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. This is a coordinated examination with other state insurance departments, in which Connecticut acted as the lead and facilitating state.

**Examination Procedures Employed**

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination

also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204(7)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

There are no significant findings for inclusion in this report.

## **COMPANY HISTORY**

### **General**

The Company was first incorporated in Maryland in 1955 as Monumental General Insurance Company. In 1992, the Company was acquired by Toyota Motor Credit Corporation, and changed its name to Toyota Motor Life Insurance Company, then redomiciled to Iowa. In 1999, the Company was acquired by Hartford Life and Accident Insurance Company, and changed its name to Nutmeg Life Insurance Company in 2002. In 2007, the Company was acquired by Accendo Holding Company, and changed its name to Accendo Insurance Company, then redomiciled to Utah. In October 2008, the Company's ultimate parent, Longs Drug Stores Corporation, was acquired by CVS Health Corporation ("CVS Health") making CVS Health the current ultimate parent of the holding company.

The Company writes Medicare Part D benefits and is licensed in all 50 states and District of Columbia.

### Dividends and Capital Contributions

There were no dividends or capital contributions during 2019. The Company paid a \$10,000,000 dividend to the parent company in second quarter 2020 and a \$25,000,000 retroactive capital contribution was received by the Company in fourth quarter 2020.

The Department approved the dividend on May 5, 2020 and the capital contribution on February 16, 2021.

### Mergers and Acquisitions

There have not been any mergers or acquisitions since the last examination other than the parent company acquiring Aetna Health of Utah Inc., another Utah domiciled insurer, via the acquisition of Aetna Inc. ("Aetna") on November 28, 2018. There are no current plans for additional mergers/acquisitions

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

### Directors

The Company's bylaws indicate that there shall be five (5) directors. The following persons served as directors of the Company as of December 31, 2020:

<b>Name and Location</b>	<b>Title and Principal Occupation</b>
Steven L. Hendrich Nolensville, TN	Senior Counsel, CVS Health
Tracy L. Smith Cumberland, RI	Vice President and Treasurer, Accendo Insurance Company Vice President, Finance, CVS Health
Robert S. Healy West Hartford, CT	Vice President, Insurance Capital Management and Leasing Finance, CVS Health
Todd D. Meek Phoenix, AZ	President, Accendo Insurance Company Vice President, Medicare Part D, CVS Health
Tyree S. Wooldridge Franklin, TN	Vice President, Medicare Supplement, CVS Health

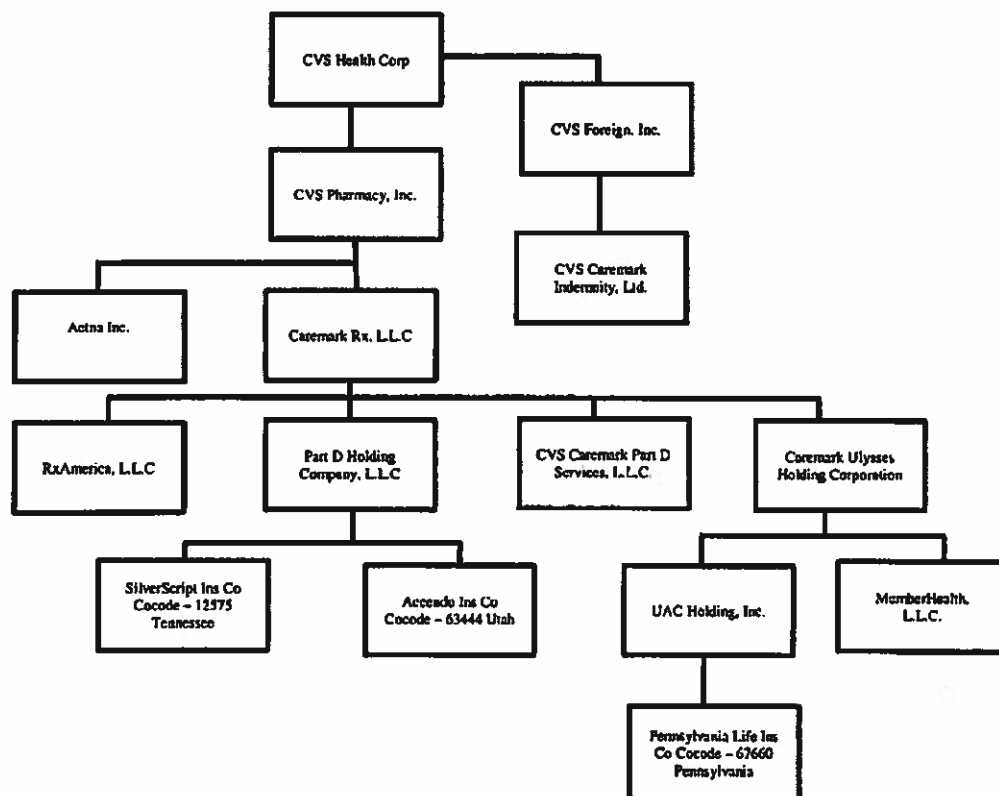
## Officers

The officers of the Company as of December 31, 2020 were as follows:

Name	Title
Todd D. Meek	President
Edward C. Lee	Vice President, Secretary
Tracy L. Smith	Vice President, Treasurer
Xiaoqi Wang	Controller
Kevin J. Casey	Senior Investment Officer
Elizabeth S. Coen	Chief Financial Officer
Jeffrey J. Drzazgowski	Actuary

## Holding Company

The Company is part of a holding company system as defined in Utah Code §31A-16. The Company along with its affiliate, SilverScript Insurance Company (SilverScript), are wholly owned and controlled by Part D Holding Company, LLC. The ultimate parent in the holding company system is CVS Health Corporation. An organizational chart illustrating the holding company system as of December 31, 2020 follows:



## **AGREEMENTS AND TRANSACTIONS WITH AFFILIATES**

In 2020, the Company entered into an administrative services agreement with Aetna Health Management (AHM) under which AHM provides certain administrative services for the Company in exchange for a portion of the Company's earned commercial and Medicare premium revenue. The Company paid \$206,000 for these services in 2020.

All companies in the CVS holding company structure participate in a tax sharing agreement in which all federal income tax payables and receivables are due from or to the parent company.

## **TERRITORY AND PLAN OF OPERATION**

The Company was licensed to offer Medicare Part D plans to eligible participants in all 50 states, and the District of Columbia. However since 2011 and after the Company was merged into the current holding company, the Company ceased writing any new premium. Medicare Part D premiums reported in 2020 were assumed from SilverScript, pursuant to the quota share reinsurance agreement.

The Company started to underwrite Medicare Supplement business in March 2020 and Final Expense life policies in second quarter 2020. The Medicare Supplement and Final Expense policies are written in numerous states with the highest premium revenues in Texas, Wisconsin, Pennsylvania, New Jersey, and Illinois. Utah comprises less than 10% of the total premium revenue.

## **GROWTH OF THE COMPANY**

Membership was 53,424 as of December 31, 2020 and was consisted entirely of Medicare Supplement policies. This is increased from zero membership in 2019 as the Company began selling Medicare Supplement policies in March 2020 and was not selling new policies prior to that point. Initial policy acquisition costs contributed to the Company's net loss of \$2.8 million in 2020, however this was expected and the parent company is able to infuse additional capital if needed until the policies stabilize.

## **REINSURANCE**

Effective January 1, 2018, the Company entered into a quota share reinsurance with its affiliate, SilverScript in which the Company assumes 5% of SilverScript's contracts and 5% of SilverScript's Medicare performance network rebate. The net gain from the reinsurance agreement with SilverScript was \$11,326,033 in 2020 and \$11,720,772 in 2019. There is no ceded reinsurance.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2020. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.



# ACCENDO INSURANCE COMPANY

## BALANCE SHEET as of December 31, 2020

### ASSETS

	Net Admitted Assets
Bonds	\$ 4,594,826
Cash and cash equivalents	11,944,188
Investment income due & accrued	26,746
Uncollected premiums in course of collection	1,803,014
Deferred premiums & agents' balances deferred and not yet due	758,666
Accrued retrospective premiums	1,697,557
Amount receivable under reinsurance contracts	11,326,033
Current federal & foreign income tax recoverable & interest thereon	599,427
Net deferred tax asset	2,728,467
Receivables from parent, subsidiaries, and affiliates	15,921,914
Healthcare and other amounts receivable	34,863,828
Total Assets	<u>\$ 86,264,666</u>

### LIABILITIES, CAPITAL AND SURPLUS

	Current Year
Claims unpaid	\$ 7,883,901
Unpaid claims adjustment expenses	95,796
Aggregate health policy reserves	1,427,970
Aggregate life policy reserves	1,508,119
Premiums received in advance	3,789,166
General expenses due or accrued	7,705,337
Remittances and items not allocated	192,305
Funds held under reinsurance treaties	36,809,787
Total Liabilities	<u>59,412,381</u>
Common capital stock	2,500,000
Gross paid in and contributed surplus	41,308,114
Unassigned funds (surplus)	<u>(16,955,829)</u>
Total Capital and Surplus	26,852,285
Total Liabilities, Capital and Surplus	<u>\$ 86,264,666</u>

ACCENDO INSURANCE COMPANY  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2020

REVENUES

Member months		194,056
Net premium income	\$	165,409,870
Change in unearned premium reserves		723,517
Aggregate write-ins for other health care related revenues		1,508,657
Aggregate write-ins for other non-health revenues		150,253
Total Revenues		<u>167,792,297</u>

EXPENSES

Hospital/medical benefits		18,073,678
Net reinsurance recoveries		<u>(102,727,229)</u>
Total hospital & medical		120,800,907
Non-health claims (net)		165,010
Claims adjustment expenses		4,984,904
General administrative expenses		40,381,609
Increase in reserves for life and accident and health contracts		1,508,119
Total underwriting deductions		<u>167,840,549</u>
Net underwriting gain (loss)		(48,252)
Net investment income earned		232,801
Net realized capital gains (losses)		199
Net investment gain (loss)		233,000
Net gain (loss) from agent's balances		2,065
Aggregate write ins for other income or expense		<u>(3,541,319)</u>
Net income (loss) after capital gains tax		(3,354,506)
Federal and foreign income taxes incurred		<u>(599,719)</u>
NET INCOME	\$	<u>(2,754,787)</u>

ACCENDO INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
2019 through 2020

	2019*	2020*
Capital and surplus, December 31, prior year	\$ 27,306,581	\$ 37,559,708
Net income (loss)	10,250,097	(2,754,787)
Change in net deferred income tax	3,030	5,482,187
Change in nonadmitted assets		(28,434,822)
Surplus adjustments: Paid in		25,000,000
Dividends to stockholders		(10,000,000)
Aggregate write-ins for gains or (losses) in surplus		(1)
Net change in capital and surplus for the year	10,253,127	(10,707,423)
Capital and surplus, December 31, current year	\$ 37,559,708	\$ 26,852,285

\* Per the regulatory financial statements filed with the Utah Insurance Department

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as of December 31, 2020 as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

There are no comments on financial statement items as of December 31, 2020 as a result of the examination.

## **SUBSEQUENT EVENTS**

There were no material subsequent events noted for inclusion in this report.

## **ACKNOWLEDGEMENT**

Karen Elsom, FSA, MAAA, of the actuarial firm Lewis & Ellis, Inc., reviewed the reserve portion of the examination. Philip McMurray and Tom Hayden, of Risk & Regulatory Consulting, reviewed the information technology portion of the examination. Chris Rushford, of Risk & Regulatory Consulting, reviewed the medical loss ratio portion of the examination. Malis Rasmussen, MSA, CFE, SPIR, Chief Financial Examiner, Utah Insurance Department, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

*Angela Alires*

Angela Alires, PIR

Examiner-in-Charge

Utah Insurance Department